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***Attorneys for Custodial Receiver JSH
Properties, Inc.***

The Hon. Brian D. Lynch
Chapter 11
Location: Courtroom 1
Hearing Date: January 24, 2018
Time: 9:00 a.m.
Response Due: January 17, 2018

UNITED STATES BANKRUPTCY COURT
WESTERN DISTRICT OF WASHINGTON
AT TACOMA

Olympia Office, LLC, a New York limited
liability company,

Debtor

No. 17-44721-BDL

DECLARATION OF EDWARD VELTON
IN SUPPORT OF RECEIVER'S RESPONSE
TO DEBTOR'S MOTION TO TERMINATE
ENGAGEMENT OF JSH PROPERTIES,
INC.

I, Edward E. Velton, state and declare as follows:

1. I am the Corporate Secretary of JSH Properties, Inc. ("**JSH**") the duly appointed general receiver in this case. I am over the age of 18 and am competent to testify herein.

2. In May, 2016, JSH was appointed custodial receiver for the various Washington real properties owned by the Debtors' predecessor, CDC Properties I, LLC, before they were acquired by the Debtors in late September, 2016. At the time of JSH's appointment, the CDC portfolio suffered from significant deferred maintenance issues, a very unhappy tenant base and the potential of losing several tenants.

DECLARATION OF EDWARD VELTON IN SUPPORT OF
RECEIVER'S RESPONSE TO DEBTOR'S MOTION TO
TERMINATE ENGAGEMENT OF JSH PROPERTIES, INC. – 1

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1 3. Since its appointment, JSH has worked diligently to stabilize the properties
2 by renewing several key leases with various Washington State agencies. JSH is in
3 negotiations with the State to renew and/or expand several more. JSH also engaged
4 contractors to perform deferred maintenance work.

5 4. JSH has also worked diligently to allay the concerns of tenants that have been
6 unhappy with the poor maintenance practices of the Debtors' predecessor, CDC Properties,
7 and concerned about the transfer of ownership to the Debtors, the NY Bankruptcy and now
8 this case.

9 5. JSH has been actively negotiating leases and lease renewals at four of the
10 Properties. A detailed summary of the status, least terms and estimated leasing costs are
11 summarized in the attached Exhibit A. If all four lease transactions are executed, the
12 estimated costs payable by the owner for construction, tenant allowances, leasing
13 commissions and construction management fees totals \$4,355,483. For purposes of this
14 estimate, leasing commissions and construction management fees are as set forth in the State
15 Court Receiver Order.

16 6. As of January 11, 2018, JSH held a cash balance of \$1,741,111.84.

17 7. Whether the leasing costs can be funded from cash on hand and future cash
18 flow depends on the timing of the work, contractor billing, and when the tenants demand
19 payment of their tenant allowances. In JSH's judgment, executing all four lease transaction
20 will very likely consume all available cash and require an injection of additional funds.


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25 DECLARATION OF EDWARD VELTON IN SUPPORT OF
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1 I declare under penalty of perjury under the laws of the State of Washington that the
2 foregoing is true and correct.

3 Executed this 14 day of January, 2018, at Bellevue, Washington.

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6 Edward E. Velton

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DECLARATION OF EDWARD VELTON IN SUPPORT OF
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1 EXHIBIT A

2 Summary of Leasing Activity

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4 ○ **645 Woodland Square Loop, Lacey, Washington 98503**

5 Department of Licensing – We are have agreed to extend the lease term for 30
6 months at \$18.25/sf plus \$1,573.45/month for parking, no free rent, no TI's. The
7 Landlord would make repairs to the parking lot, roof and gutters as well as minor
8 repairs to the HVAC. Estimated cost is \$158,037.

8 ○ **640 Woodland Square Loop, Lacey, Washington 98503**

9 Employment Security Department (ESD) expansion: In the last week of 2017, we
10 met with the DES to discuss a new ESD requirement. ESD had been considering
11 expanding by close to 30,000 sf in another building. They recently downsized
12 their hiring goals and decided they need another “10,000 – 12,000” sf. After
13 several discussions we a have handshake agreement whereby the ESD will take all
14 the vacant space in 640 Woodland Square loop including the annex space. This
15 totals approximately 11,489 rsf. Landlord would provide paint and carpet for all
16 spaces consistent with ESD's current buildout. The annex is current unfinished
17 space with no HVAC, wallboard, ceiling, etc. Landlord would bring the annex
18 space to “warm vanilla shell” condition. No TI allowance or free rent would be
19 provided. The ESD would use the \$154,126 balance of their existing TI allowance
20 to improve the spaces. The ESD lease would be re-written to encompass the
21 additional space and the term would be 5 years. It's important to note that the
22 current ESD lease expires 6/30/21. The new lease for the entire building would
23 likely have a new expiration date of approximately 5/30/23. The DES is currently
24 drafting the new lease. We will get the prospective Landlord work priced. We
25 hope to have the lease executed in March of 2018. The initial rough estimate of
the total cost is approximately \$48,990.

20 ○ **4565 7th Avenue, Lacey, Washington 98503**

21 All three tenants (Gambling Commission, DSHS-DVAR, and Department of
22 Services for the Blind(DSB)) have worked with the DES architect to develop a
23 stacking plan and a build-out plan that works for them all. Based on the stacking
24 plan and the bid specifications developed, JSH has priced the work (\$38+/sf) and

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1 proposed \$18.50/sf modified gross as a 10-year lease rate term option and
2 \$24.10/sf modified gross for a 5-year term option. Initial feedback is that
3 Gambling Commission will likely take the 10-year option and DSHS-DVR & DSB
4 may want 5-year options. DES is working with the three agencies to help them
5 through their budgeting and planning process. We hope to conclude negotiations
6 in January of 2018 and sign leases in February of 2018. Most of the required work,
7 except for the suite for Services for the Blind HQ (DSB HQ), has been bid out.
8 We estimate the total cost at approximately \$2,382,246 plus the cost for the work
9 for the DSB HQ suite.

10 ○ **805 S. Mission St., Wenatchee 98801**

11 Department of Social and Health Services (DSHS) – JSH has negotiated a ten
12 (10) year lease renewal. We have a final draft lease from the DES. The total
13 costs are estimated at \$47/sf, including leasing commissions and a \$3/sf TI
14 allowance. The lease provides 4 months free rent. The rent would be \$18.50/sf
15 with an 8% increase at the beginning of the 6th year. For over a year we have
16 negotiated the lease and the costs. After our last overture, the DES stated that the
17 proposed lease renewal terms are the only ones they will accept and if the
18 Landlord fails to accept them in the near future Tenant will likely issue an RFP
19 for a new location. The estimated total cost is \$1,332,210.

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